APPENDIX A

GCI REPLACEMENT LANGUAGE

c. Accumulated Depreciation on Plant in Service at December 31, 2001

(1) IP's Position

IP notes that in connection with the inclusion in rate base of capital additions for projects that had received funding approval from management as of September 30, 2001, IP also decreased rate base by the amount of accumulated depreciation and deferred income taxes accruing from January 1, 2001 through September 30, 2001 on plant that was in service as of December 31, 2000. This adjustment decreases rate base by $31,899,000 for additional accumulated depreciation, and by $3,448,000 for additions to the reserve for deferred taxes, subsequent to December 31, 2000. IP agrees that the need to recognize post-year accumulated depreciation on plant in service at December 31, 2000 was originally identified by GCI. IP believes that it went beyond GCI's proposal by also recognizing post-December 31, 2000 growth in the provision for deferred income taxes associated with plant in service at that date.

IP asserts that its recognition of accumulated depreciation and deferred taxes on plant in service as of December 31, 2000, through September 30, 2001, is consistent with its proposal (accepted by Staff) to include capital additions for projects that have received funding approval as of September 30, 2001. IP notes that while these capital additions projects include some expenditures that will be made after September 30, 2001 on projects that will not be completed by that date, Illinois Power is <u>not</u> proposing (and Staff has not accepted) inclusion in rate base of <u>all</u> projected capital additions through June 2002. According to IP, its recognition of additional accumulated depreciation and deferred taxes, through September 30, 2001, on plant in service as of December 31, 2000, is reasonable and consistent with the capital additions adjustment, and should be accepted.

(2) GCI's Position

GCI notes that IP agreed to adjust the depreciation reserve to reflect growth beyond the end of the test year, consistent with the adjustment to rate base for plant additions beyond the end of the test year. GCI argues, however, that the Company's adjustment to the depreciation reserve does not achieve consistency between plant in service on the one hand and accumulated depreciation and deferred taxes on the other hand.

GCI states that in contrast to its additions to plant, IP is proposing to recognize growth in the depreciation reserve and deferred taxes only through September 30, 2001<u>, which IP proposes as the cut-off date for post-test year plant additions and projects with funding approval</u>. According to GCI, the adjustment to depreciation reserve and deferred taxes is not consistent with the plant in service in rate base, which includes additions taking place well after September 30, 2001.

GCI argues that the best way to rectify this inconsistency is to allow pro forma adjustments for plant in service through a fixed date, where pro forma adjustments for depreciation reserve growth is limited to that same fixed date. As explained above, GCI recommends that the fixed date be set at June 30, 2001, to minimize distortion to the determination of rates.

Alternatively, GCI argues that if the Commission agrees to adjust rate base for plant additions "with funding approval as of September 30, 2001", then, at a minimum, the depreciation reserve and accumulated deferred taxes should be adjusted to recognize growth through the date that the last of those additions actually goes into service.

(3) Staff's Position

Staff agrees with IP's adjustment for depreciation reserve and accumulated deferred taxes.

(4) Commission's Conclusion

The Commission adopts the adjustment to increase the accumulated reserve for depreciation associated with plant in service as of December 31, 2000, and the reserve for deferred income taxes associated with such plant, through ~~September~~July 30, 2001, as proposed by ~~IP~~GCI. The Commission concludes that this adjustment is consistent with the basis for including capital additions in rate base, as discussed in the preceding section of this Order. The Commission is persuaded by GCI's agrument to limit in service plant additions to the same July 30, 2001 cut-off date in order to prevent the distortion in rate base that uneven adjustments would generate.~~The Commission notes that this adjustment is apparently concurred in by Staff. The proposal by GCI to extend the reserve for depreciation and the reserve for deferred income taxes through June 30, 2002, should not be adopted, because it would overstate the appropriate adjustment.~~ ~~The~~Therefore, the Commission ~~is not~~only approv~~inges~~ the inclusion in rate base of ~~all~~any ~~of~~ IP~~'s~~ projected capital additions not in service as of ~~through~~ June 30, ~~2002~~2001. ~~The Commission notes that the capital additions adjustment approved in this Order consists substantially of actual expenditures as of September 30, 2002.~~

APPENDIX B

GCI ALTERNATIVE REPLACEMENT LANGUAGE

c. Accumulated Depreciation on Plant in Service at December 31, 2001

(1) IP's Position

IP notes that in connection with the inclusion in rate base of capital additions for projects that had received funding approval from management as of September 30, 2001, IP also decreased rate base by the amount of accumulated depreciation and deferred income taxes accruing from January 1, 2001 through September 30, 2001 on plant that was in service as of December 31, 2000. This adjustment decreases rate base by $31,899,000 for additional accumulated depreciation, and by $3,448,000 for additions to the reserve for deferred taxes, subsequent to December 31, 2000. IP agrees that the need to recognize post-year accumulated depreciation on plant in service at December 31, 2000 was originally identified by GCI. IP believes that it went beyond GCI's proposal by also recognizing post-December 31, 2000 growth in the provision for deferred income taxes associated with plant in service at that date.

IP asserts that its recognition of accumulated depreciation and deferred taxes on plant in service as of December 31, 2000, through September 30, 2001, is consistent with its proposal (accepted by Staff) to include capital additions for projects that have received funding approval as of September 30, 2001. IP notes that while these capital additions projects include some expenditures that will be made after September 30, 2001 on projects that will not be completed by that date, Illinois Power is not proposing (and Staff has not accepted) inclusion in rate base of all projected capital additions through June 2002. According to IP, its recognition of additional accumulated depreciation and deferred taxes, through September 30, 2001, on plant in service as of December 31, 2000, is reasonable and consistent with the capital additions adjustment, and should be accepted.

(2) GCI's Position

GCI notes that IP agreed to adjust the depreciation reserve to reflect growth beyond the end of the test year, consistent with the adjustment to rate base for plant additions beyond the end of the test year. GCI argues, however, that the Company's adjustment to the depreciation reserve does not achieve consistency between plant in service on the one hand and accumulated depreciation and deferred taxes on the other hand.

GCI states that in contrast to its additions to plant, IP is proposing to recognize growth in the depreciation reserve and deferred taxes only through September 30, 2001, which IP proposes as the cut-off date for post-test year plant additions. According to GCI, the adjustment to depreciation reserve and deferred taxes is not consistent with the plant in service in rate base, which includes additions taking place well after September 30, 2001.

GCI argues that the best way to rectify this inconsistency is to allow pro forma adjustments for plant in service through a fixed date, where pro forma adjustments for depreciation reserve growth is limited to that same fixed date. As explained above, GCI recommends that the fixed date be set at June 30, 2001, to minimize distortion to the determination of rates.

Alternatively, GCI argues that if the Commission agrees to adjust rate base for plant additions "with funding approval as of September 30, 2001", then, at a minimum, the depreciation reserve and accumulated deferred taxes should be adjusted to recognize growth through the date that the last of those additions actually goes into service.

(3) Staff's Position

Staff agrees with IP's adjustment for depreciation reserve and accumulated deferred taxes.

(4) Commission's Conclusion

The Commission adopts the adjustment to increase the accumulated reserve for depreciation associated with plant in service as of December 31, 2000, and the reserve for deferred income taxes associated with such plant, through ~~September~~July 30, 2001, as proposed by ~~IP~~GCI. The Commission concludes that this adjustment is consistent with the basis for including capital additions in rate base, as discussed in the preceding section of this Order. ~~The Commission notes that this adjustment is apparently concurred in by Staff.~~ The proposal by GCI to extend the reserve for depreciation and the reserve for deferred income taxes through to the date when the last addition to rate base is placed in service~~June 30, 2002,~~ should ~~not~~ be adopted, because it will~~would~~ balance IP's post-test year adjustments for plant additions that were only funded as of the June 30, 2001 cut-off date.~~overstate the appropriate adjustment. The Commission is not approving the inclusion in rate base of all of IP's projected capital additions through June 30, 2002. The Commission notes that the capital additions adjustment approved in this Order consists substantially of actual expenditures as of September 30, 2002.~~

APPENDIX C

GCI REPLACEMENT LANGUAGE

b. Post Test-Year Plant Additions

(1) IP's Position

IP proposed pro forma plant additions to its revenue requirement and Staff evaluated whether these changes are known and measurable. In its evaluation of proposed pro forma adjustments, Staff used techniques that rely on the availability of certain documents and/or testing of processes to constitute evidence of reasonable certainty of amounts. The "known and measurable" principle provides a standard by which to evaluate pro forma adjustments that is reasonable and can be applied in a variety of situations with a variety of issues and companies.

IP presented evidence of the processes that comprise the development of capital projects, from identification, initial and final design, costing and funding approval for plant additions. Staff determined that the key element of the known and measurable criteria to apply in this docket is the funding approval by management. The funding approval is the element of the known and measurable criteria that, in this docket, provides evidence of reasonable certainty for amounts in addition to actual amounts expended by the Company. The projects, for which the Company has provided evidence of a funding approval, are both known and capable of being measured with reasonable certainty.

The Company and Staff agreed on the pro forma plant additions. As a result of the pro forma plant adjustment, depreciation expense, accumulated depreciation and accumulated deferred income tax amounts were also adjusted. The Company and Staff agreed to the adjustments related to the pro forma plant additions.

IP takes issue with the argument of GCI that additions should be limited to those projects put in service by June 30, 2001. IP asserts that this date is arbitrary and is not based on any objections to projects. IP further asserts that it has provided sufficient evidence to show that all projects either funded or approved by September 30, 2001 are properly included in rate base.

(2) GCI's Position

GCI argues that IP's distribution plant additions should be limited to those additions in service as of June 30, 2001. GCI argues that using this date minimizes distortions ~~of~~to the revenue requirement arising from using billing determinants for the end of the test year while ~~and balances the effect of~~ recognizing plant additions taking place after the end of the test year. GCI asserts that IP's plant addition adjustments do not acknowledge other factors such as sales growth and accumulated depreciation throughout the time period for the adjustments.

GCI further argues that IP is trying to include 9 months of plant additions after the end of the test year while only recognizing customer growth through the end of the test

year. GCI states that Staff did not utilize the September 30, 2001 cut-off, date but rather that was an arbitrary date selected by IP. GCI notes that Staff did not offer an opinion whether these pro forma adjustments would reflect a balanced view of extending rate base additions beyond the test year.

(3) Staff's Position

Staff expounds that IP presented evidence of the processes that comprise the development of capital projects, from identification, initial and final design, costing and funding approval for plant additions. Staff notes that it determined that the key element of the known and measurable criteria to apply in this docket is the funding approval by management. According to Staff, the funding approval is the element of the known and measurable criteria that, in this docket, provides evidence of reasonable certainty for amounts in addition to actual amounts expended by the Company. Staff concludes that the projects, for which the Company has provided evidence of a funding approval, are both known and capable of being measured with reasonable certainty.

Staff states that the Company and Staff agreed on the pro forma plant additions and as a result of the pro forma plant adjustment, depreciation expense, accumulated depreciation and accumulated deferred income tax amounts were also adjusted.

(4) Commission's Conclusion

The Commission concludes that IP's proposed pro forma adjustments to IP's distribution plant and general plant additions~~ are reasonable and should be approved. Having~~ should be limited to those additions in service as of June 30, 2001. While Staff demonstrated that ~~its~~IP's proposed adjustments were known and measurable, GCI has demonstrated that allowing post-test year adjustments through September 30, 2001, while limiting billing determinants to the end of the 2000 test year, would unnecessarily distort the revenue requirement in this docket, and result in improperly high rates.~~there is no substantive difference between using June 30, 2001 as a cut-off or September 30, 2001.~~

APPENDIX D

GCI REPLACEMENT LANGUAGE

e. Deferred tax debit balances

(1) GCI's Position

GCI argues that IP has incorrectly included several deferred tax debit balances in the accumulated deferred income taxes ("ADIT"), which are not investor-supplied funds. Therefore, ADIT is deducted from plant in service in the determination of rate base, i.e. a rate base deduction. Including a deferred tax debit balance in ADIT reduces the net balance of ADIT and increases rate base. Similarly, eliminating a deferred tax debit increases the net balance of ADIT and decreases rate base.

GCI cites four instances where it argues that IP has included deferred tax debit balances in rate base, despite not deducting the reserves or accruals giving rise to those deferred tax debit balances from rate base, and demonstrated why those debit balances should be eliminated from the calculation of the ADIT rate base deduction.

GCI asserts that IP included (1) a net deferred tax balance related to accrued pensions and benefits and did not deduct any accrued provision for pensions and benefits from rate base; (2) included a deferred tax balance related to miscellaneous reserves and did not deduct any accrued miscellaneous reserves from rate base; (3) included a deferred tax balance relating to accruals for vacation pay and did not deduct the accrual for vacation pay in excess of actual expenditures from rate base; (4) included a deferred tax balance related to the interest on tax issues. GCI argues that this interest on IP's tax liability is not an element of the delivery services revenue requirement. GCI notes that the total amount of these deferred tax debit balances is $12,072,000 and requests their removal.

GCI also responds to IP's argument that it is Commission practice to deduct the entire balance of the reserve for ADIT from rate base without selective adjustment for individual items by pointing out that the entire balance of ADIT would include a $793.6 million ADIT credit balance related to IP's gain on the sale of its fossil fuel plants to Illinova. If that entire balance was deducted from rate base, IP's rates would be significantly reduced. GCI asserted that IP's election to selectively adjust the ADIT balance to remove the credit for the plant sale to Illinova vitiates IP's argument.

(2) IP's Position

IP notes that GCI proposed to remove from the reserve for deferred income taxes the debit balances for four items in the deferred tax accounts. In the determination of rate base, the accumulated reserve for deferred income taxes is deducted, thereby reducing the size of rate base. IP notes however, that deferred tax debit balances reduce the size of the overall deferred tax reserve (in contrast to credit balances, which increase the size of the deferred tax reserve). IP asserts that by removing certain deferred tax debit balances in the calculation

of rate base, GCI's adjustment would have the effect of increasing the amount of the reserve for deferred taxes, and therefore decreasing overall rate base.

IP argues that it has not been the Commission's practice to determine the components of the deferred tax reserve to be deducted from rate base on an account-by-account basis. IP asserts that the Commission has simply deducted the entire deferred tax reserve from rate base. IP argues that the entire balance of the reserve for deferred taxes should be deducted from rate base, without selective adjustment for individual items.

(3) Staff's Position

Staff agrees with IP that GCI's proposed adjustment is inappropriate.

(4) Commission's Conclusion

The Commission concludes that ~~entire balance of the reserve for deferred taxes should be deducted from rate base~~it is appropriate to review and adjust the reserve for deferred taxes. In fact, IP itself has removed a substantial $793.6 million ADIT credit, contradicting its position that the entire balance of reserve for deferred taxes is ordinarily deducted from rate base without adjustment. Therefore, the Commission concludes that GCI's four proposed adjustments for a total rate base reduction of $12,072,000 is appropriate. ~~The Commission agrees that selective adjustment for individual tax items creates an unneeded distinction among deferred tax accounts.~~

3. Commission Conclusion on Rate Base

Giving effect to the adjustments to rate base approved above, the Commission concludes that the Company's delivery services rate base is $~~789,590~~676,376,000. The rate base may be summarized as follows:

	(000)
Plant in Service	$~~1,602,379~~1,423,626
Depreciation Reserve	(~~659,098~~581,487)
NET PLANT	~~943,281~~842,139
ADDITIONS TO RATE BASE:	
Non-AFDUC CWIP	5,592
Depr. Reserve Contrib Electric Distribution	2,870
Working Capital	9,099
DEDUCTIONS FROM RATE BASE:	
Reserve for Deferred Income Taxes	(~~167,603~~179,675)

Customer Deposits	(2,044)
Customer Advances for Construction	(1,032)
Unamortized Pre-1971 ITCs	(573)
RATE BASE	~~$ 789,590~~676,376

APPENDIX E

GCI REPLACEMENT LANGUAGE

6. Amortization Rate of Intangible Plant

a. GCI's Position

GCI asserts that the amortization for intangible plant included in the delivery services revenue requirement should be reduced. As of December 31, 2000, the balance of intangible plant in service was $63,479,000 and the accumulated amortization of that intangible plant was $49,696,000; therefore, the net balance of intangible plant subject to amortization as of that date was $13,783,000. The annual amortization expense requested by IP is $5,659,000. GCI states that at this rate of amortization, the net intangible plant will be completely amortized approximately 2.4 years after the end of the test year and only 13 months after DST rates are in place. GCI asserts that if the rates are in effect beyond that time, IP will be collecting in rates for an expense that it is no longer incurring. Thus, GCI concludes that the amortization of intangible plant included in the delivery services revenue requirement should be modified to more accurately match the amortization expense to the value of the plant. GCI recommends that the remaining net balance as of May 1, 2002 be amortized over three years, resulting in annual amortization of $2,079,000 on embedded intangible plant as of December 31, 2000, which is $3,580,000 less than the amortization of the embedded intangible plant requested by IP.

GCI notes that IP's total gas and electric balance of intangible plant as of the end of 1997 was $84,394,181. Even if new plant is added, GCI argues, this existing plant will be fully amortized by 2003 because it has an amortization life of five years. According to GCI the only balances left to be amortized will be additions from 1998 forward. GCI asserts that, in calculating its amortization expense, IP has failed to recognize that amortization of pre-1998 vintages will be expiring as the amortization of new additions begins. GCI calculated the additions to intangible plant allocable to electric distribution operations for 1998, 1999 and 2000 to be $2.6 million, $0.5 million, and $1.9 million, respectively. Assuming that the additions to intangible plant continue at the rate for 1998, 1999, and 2000, GCI argues, the average rate of additions will be less than $2 million per year. GCI believes that the amortization of intangible plant in 2003 will be much closer to the pro forma amortization expense proposed by GCI than to the amount IP is proposing.

b. IP's Position

IP opposes GCI's proposed reduction in amortization expense for intangible plant. IP argues that this proposal must be rejected for at least two reasons. First, IP is continuing to add intangible plant. In this case, IP is proposing intangible plant capital additions to distribution rate base totaling $7,235,000 (as contrasted to a net amount of intangible plant in service at December 31, 2000 of approximately $13.8 million). Therefore, IP does not expect to reach a fully amortized level of intangible plant in the foreseeable future. Second, IP claims the appropriate amortization rate should be

determined based on the useful life of the asset being amortized, not on the frequency of the utility's rate case filings. IP asserts that GCI has made no showing that IP's amortization rate is inappropriate based on the useful lives of its intangible plant assets. In addition, IP notes that GCI's proposed adjustment is rooted in a concern that IP's existing intangible plant will be fully amortized by about June 2003 and that from that point until the next DST rate case, customers will pay rates that include an amortization expense that IP is not incurring. IP argues that GCI is pursuing a selective approach in that between the date of this Order and the next case, IP will probably incur a variety of increased costs, yet GCI would not agree that adjustments should be made to the revenue requirement established in this case to take into account cost increases IP may experience in 2003.

c. Staff's Position

With respect to GCI's proposed adjustment to intangible plant amortization expense, Staff notes that, from a theoretical standpoint, the appropriate amortization rate should be determined based on the useful life of an asset, regardless of the frequency of the utility's rate case filings.

d. Commission's Commission

The Commission concludes that GCI's proposed adjustment ~~must be rejected~~is proper~~, for at least three reasons~~. ~~First,~~ GCI's adjustment is essentially premised on the completion of amortization of IP's intangible plant balance at December 31, 1997, by the end of 2002, and the balance at December 31, 2000, by mid-2003~~,~~. ~~and does not~~ GCI's prosed annual amortization of $2,696,000 recognizes that IP is and will be continuing to add intangible plant on an annual level similar to the $2.6 million, $0.5 million, and $1.9 million added for 1998, 1999, and 2000, respectively. ~~GCI's attempt to show that even with additions, the intangible plant balance will be fully amortized, is speculative. Second, the Commission agrees with Staff that the amortization of intangible plant should be based on the useful lives of the assets, not on the timing of the utility's rate filing. GCI has not contended that IP's amortization rate for intangible plant is inappropriate given the useful lives of the assets. Third, even if all of GCI's assumptions and calculations were correct, it would be inappropriate to adopt this single adjustment based on the fact that a revenue requirement component may cease to exist in 2003, prior to the next DST case without also making adjustments for other cost changes that may occur between the date the rates set in this case go into effect and the likely date of the next DST rate order.~~This adjustment recognizes an ongoing level of investment in intangible plant that is consistent with the evidence, that avoids distortion resulting from the unusually high level of investment in 1997, and assures full recovery of intangible plant investment.

APPENDIX F

GCI REPLACEMENT LANGUAGE

7. Injuries and Damages Expense

a. IP's Position

During the test year, IP recorded a $5.5 million accrual for liability exposure for injuries and damages expense in connection with three pending or potential litigation claims. IP submits that creation of this accrual was consistent with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5"). SFAS 5 states that an estimated loss for a loss contingency should be charged to expense, and a liability recorded, if both of the following conditions are met: (1) information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and (2) the amount of the loss can be reasonably estimated. IP recognized an expense for these three claims in December 2000 because it was probable that a liability had been incurred and IP could reasonably estimate the loss.

Initially, IP proposed to include the jurisdictional portion of the $5.5 million amount in test year expenses as a legitimate and necessary operating expense. However, in response to questions raised by GCI about the resulting test year level of Injuries and Damages expense in relation to the levels incurred in recent years, IP proposed to amortize the $5.5 million accrual over a three-year period. IP states that the three-year amortization period is based on two factors: (1) The DST rates established in this case are expected to be in effect for approximately three years (early 2002 until early 2005); therefore, the expense would be fully amortized by the time new DST rates are established; and (2) litigation matters such as those for which the accrual was established can take two to five years to be brought to resolution. IP states that removing the accrual expense from test year expenses and amortizing the amount over a three-year period results in a net reduction to operating expenses of $3,225,000.

IP contends that GCI's objection to any recovery of this expense, which is based on the argument that IP should not be allowed to include both actual claims paid and accruals for future claims payments in the test year, ignores the relevant accounting requirements, and should be rejected. IP disputes GCI's argument that allowing recovery of both actual claims payments and SFAS 5 accruals is "double recovery." IP characterizes GCI's argument that IP should not be allowed to include both actual claims paid and accruals for future payments as a red herring because, according to IP, both the current period payments and the accrual are current period expenses. IP explains that SFAS 5 requires the recording of a current period expense when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Since the $5.5 million accrual is a current period (test year) expense, IP argues, it is appropriately recognized in setting rates.

IP acknowledges that recording the expense for the $5.5 million accrual resulted in an unusually high total level of Injuries and Damages expense in 2000 as compared to

prior years; IP states that it appropriately addressed this fact by agreeing to amortize the $5.5 million accrual over three years.

b. GCI's Position

GCI asserts that the injuries and damages expense proposed by IP should be reduced. GCI contends that IP's proposed injuries and damages expense component for the test year is considerably higher than the injuries and damages charged to Account 925 in the past. GCI contends that this proposed injuries and damages expense includes both actual claims paid and an accrual for future claims, including a $5.5 million accrual as a reserve for potential claims that IP recorded in 2000. GCI accepts the injuries and damages expense for claims that have been actually paid, but contends that the accrual should not be included in the injuries and damages expense. According to GCI, this would constitute double recovery. GCI notes that this accrual is a reserve for potential future claims, not claims that have already occurred, and that this accrual is inconsistent with the typical methods used by IP to compute this expense. Since it is atypical for IP to recover both the $5.5 million accrual and claims actually paid in the test year, for injuries and damages, GCI argues, the $5.5 million accrual should be completely removed from the test year. GCI also argues that IP's proposal to amortize the $5.5 million accrual over a three-year period should be rejected. GCI also states, however, that if the Commission chooses to phase in the accrual over three years, then in the future, there should be a rate base deduction for the accrued liability in excess of claims actually paid; the accrued liability (or reserve) would represent the cumulative recovery through rates in excess of amounts actually paid.

c. Commission's Conclusion

The Commission concludes that IP's proposal to remove the $5.5 million accrual for litigation claims from test year operating expense and amortize this amount over a three-year period should be accepted. GCI's proposal to disallow the $5.5 million expense in its entirety should be rejected. The Commission rejects GCI's characterization that IP is seeking double recovery. There appears to be no dispute that IP has properly recorded the $5.5 million accrual in 2000 in accordance with the requirements of SFAS 5, and that the $5.5 million amount is a current period expense in 2000, just like claims actually paid in that year. The Commission concludes that has IP properly responded to the unusually high level of expenses recorded in Account 925 for 2000 by removing the $5.5 million accrual from test year expenses and amortizing it over three years. The Commission also agrees with GCI that there should be a rate base deduction in the future for the accrued liability in excess of claims actually paid, because the accrued liability (or reserve) in excess of what is actually paid in claims would represent the cumulative recovery through rates in excess of amounts actually paid.

APPENDIX G

GCI REPLACEMENT LANGUAGE

B. Allocation of Miscellaneous Revenues to Customer Classes

1. IP's Position

It is IP's position that the largest categories of miscellaneous revenues are forfeited discounts, equipment rentals, and service activation fees – these three categories account for about $7.9 million of the $9.4 million of test year miscellaneous revenues. IP states that forfeited discounts (i.e., late payment charges) and service activation fees were allocated directly to the customer classes to which the forfeited discounts and service activation fees were billed, resulting in 66% of the total forfeited discounts and 95% of the service activation fee revenue being allocated to the residential class. IP states that equipment rental revenues were allocated to the non-residential customer classes because these rental revenues come from large customers renting transformers, customer substations and customer metering equipment. Under IP's approach, no equipment rental revenue was allocated to the residential class because residential customers do not need to rent this type of equipment.

IP claims GCI's reasoning that a portion of equipment rental revenues should be allocated to the residential class because the costs of transformers and substations that IP rents to customers are recorded in accounts that are allocated to the residential class is incomplete. IP claims that the costs of the plant investment and related expenses are allocated to the customer classes, including residential, on the basis of their respective cost of service responsibilities. In IP's view, this produces a fair allocation of the underlying costs, which the Company avers GCI did not challenge. IP argues that the non-residential classes, in particular the demand-metered classes, make a contribution to recovery of their allocated share of these costs through the payment of rental revenues. IP asserts that residential customers do not rent this equipment, and therefore the residential class does not make any contribution to its allocated share of these costs through the payment of rental revenues. IP believes it has appropriately allocated the equipment rental revenues to the customer classes that pay the rents (i.e., non-residential), since these rental payments reduce the amount of these classes' revenue requirement responsibility that must be recovered through the base distribution rates.

According to IP, it appears that GCI witness Smith re-allocated all miscellaneous revenues (i.e., forfeited discounts, service activation fee revenues, etc.) based on the amounts of distribution operating labor that were allocated to the customer classes, even though GCI only raised an issue with respect to the Company's allocation of equipment rental revenues. IP assert that this is an additional reason to reject CUB/AG's allocation of miscellaneous revenues.

2. GCI's Position

GCI states that IP proposes to assign miscellaneous revenues according to which customer class generated the revenues. It is GCI's position that the underlying driver of

the revenues, however, is not the class that pays them, but the service that gives rise to those revenues. GCI claims that the services the Company provides that give rise to the miscellaneous revenues are largely provided by Company employees and/or by Company equipment. GCI asserts that IP's method creates a mismatch between the allocation of the underlying costs and the allocation of the revenues produced by those costs.

According to GCI, IP allocates equipment revenue, which represents the majority of miscellaneous revenues, according to the classes that paid the rental fees, instead of according to the classes that were allocated the underlying equipment expenses. GCI claims that IP concedes that some of the cost of transformers, a typical piece of equipment from which IP collects rental revenue, is allocated to the residential class. GCI claims there is an inconsistency in the Company's COSS and, as a result, GCI adjusted it to reflect an allocation of revenue on the same basis as the Distribution Operating Labor expense.

In response to IP's argument that the non-residential classes, in particular the demand-metered classes, make a contribution to recovery of their allocated share of these costs through the payment of rental revenues, GCI claims that the residential class does not use the equipment that is rented to demand-metered customers, and therefore would not have any responsibility to contribute to the use of that equipment. GCI states that while the residential class does not use the equipment that generates the rental revenue, it is allocated a share of the underlying costs of the equipment that generates the revenue. GCI asserts that if the Company's proposal were adopted, the residential class would not see any benefit whatsoever from the costs it was allocated for this equipment.

3. Commission's Conclusion

Having reviewed the record and the arguments of the parties, the Commission finds ~~IP~~GCI's proposed method of allocating miscellaneous revenues to be reasonable and adopts that method for purposes of this proceeding. The Commission ~~cannot~~ accepts GCI's suggestion that a portion of equipment rental revenue should be allocated to the residential class. The Commission does not accept, ~~A~~as IP states, ~~it is typically the demand metered class that rents transformation equipment providing rental revenues to IP and, therefore,~~that the rental revenue from transformation equipment should be allocated to the demand metered class only. These rental revenues reduce the amount of revenue responsibility that must be recovered through the demand metered distribution base rates. The Commission finds GCI's proposed allocation methodology ~~would~~ results in ~~improper~~ more consistent allocation of revenue responsibility between customer classes. The Commission finds that GCI properly recognizes the inconsistency produced by IP's rate design. Therefore, the commission has adjusted the Company's COSS to reflect an allocation of miscellaneous revenue on the same basis as the expense.

APPENDIX H

GCI REPLACEMENT LANGUAGE

8. Use of Electronic Signatures for Customers – RES Letters of Agency

a. Staff's Position

In this proceeding, Staff raised an issue regarding whether IP should permit electronic signatures (as compared to "wet" signatures) to be valid for customers "signing" an LOA. Staff recognized that its proposal raised issues that might be better resolved in a workshop process and suggested that such a process be initiated for interested parties.

b. IP's Position

~~While~~ IP has some concerns about the use of electronic signatures (including their legality given the current wording of various applicable statutes), it is not opposed to them in the abstract and is willing to work with Staff in workshops to resolve various issues surrounding their use.

c. GCI's Position

GCI agreed with Staff witness Schlaf's testimony that an electronic signature should be sufficient to authorize an LOA under Section 2EE of the Consumer Fraud and Deceptive Business Practices Act. GCI argued that both the Illinois Electronic Commerce and Security Act ("ECSA") and the federal Electronic Signature in Global and National Commerce Act ("E-Sign") allow for the use of electronic signatures in the context of signing an LOA. GCI also argued that Section 2EE of the Consumer Fraud and Deceptive Business Practices Act does not specifically limit authorization to a physical writing, but that the verification provisions of both ECSA and E-Sign are necessary to ensure that the LOA is properly authorized.

d. Commission's Conclusion

The Commission agrees with GCI's analysis that both ECSA and E-Sign allow for electronic signatures to be accepted in the place of physical, or "wet", signatures, and therefore that both Acts legally allow a Section 2EE LOA to be authorized by electronic signature. However, the Commission also agrees with GCI's concern over the verification proceedures to be used in the context of authorizing an LOA. None of the parties have been able to provide a comprehensive set of rules to govern the methods and verification procedures to ensure that an electronic signature is in fact unique to the consumer to which the electronic signature is attributed. The parties can only agree that the Commission should mandate workshops to investigate this verification issue.

In light of the consensus among those parties who provided testimony on this verification issue that this issue is better addressed in workshops, the Parties recommended that the Commission should not attempt to resolve this issue at this time

but rather permit the parties a chance to resolve this matter informally. The Commission agrees with the position of the Parties and shall allow this issue to be investigated~~resolved~~ through the workshop process with the understanding that the parties should produce, ~~arrive at a process~~ using the verification requirements of ECSA and E-Sign as a template, a set of rules governing the ~~to~~ implementation and verification of electronic signatures subject to the Commission's approval.